

1
2
3
4 UNITED STATES DISTRICT COURT
5

6 * * *
7 DISTRICT OF NEVADA
8
9

10 JOANNE CRETNEY-TSOSIE, et al.,
11

v.
12 Plaintiffs,

13 CREEKSIDE HOSPICE II, LLC, et al.,
14

Defendants.

15 Case No. 2:13-cv-00167-APG-PAL
16
17 ORDER
18 (Mot Enforce Order – Dkt. #95)
19

20 Before the court is Creekside Hospice II, LLC, Skilled Healthcare, LLC, and Skilled
21 Healthcare Group’s (“Creekside”) Motion to Enforce the Court’s June 30, 2015 Order to United
22 States to Produce False Claims Information and to Show Cause for Non-Compliance (Dkt. #95).
23 The court has considered the motion, Defendants’ Supplement (Dkt. #96), the United States’
24 Response (Dkt. #101), Defendants’ Notice of New Legal Precedent (Dkt. #134), Notice of
25 Service of Discovery Pursuant to June 30, 2015 Order (Dkt. #135), Sealed Exhibits to Notice of
26 Service (Dkt. #136), Response to Notice (Dkt. #137), Reply to Response to Notice (Dkt. #138),
27 Response to Notice of New Legal Precedent (Dkt. #139), and the arguments of counsel at a
28 hearing conducted September 24, 2015.

29
BACKGROUND

30
I. Procedural History

31 The Complaint (Dkt. #1) was initially filed April 9, 2012, and alleged violations of the
32 federal False Claim Act 31 U.S.C. § 3729 and the Nevada False Claim Act, NRS 357.010. The
33 complaint was initially filed in camera and under seal, but has now been unsealed. The
34 Plaintiff/Relator Joanne-Cretney-Tsosie, United States and State of Nevada filed multiple ex
35 parte applications for an extension of time to consider whether to intervene. The case was
36 originally filed as a sealed case in the unofficial northern district as Case No. 3:12-cv-00190-

1 HDM. In a sealed Minute Order in Chambers (Dkt. #9) entered February 4, 2015, Judge
2 McKibben entered an order directing transfer from the northern division to the unofficial
3 southern division. Pursuant to that order, the case was transferred and assigned Case No. 2:12-
4 cv-00167-HDM. This case was eventually consolidated with another qui tam action filed as
5 Case No. 2:13-cv-01283-GMN-PAL, with this case serving as the base case in a sealed Order
6 (Dkt. #37) entered August 14, 2014.

7 On August 18, 2014, the district judge entered an Order (Dkt. #38) unsealing the notice
8 of election to intervene in part and to decline to intervene in part filed by the United States and
9 the State of Nevada. The order also gave the United States and Nevada ninety days to serve their
10 complaint upon the Defendants; ordered the Relator's complaint unsealed upon the filing and
11 service of the United States and Nevada's complaint in intervention; gave Relator ninety days to
12 serve its complaint; required all other papers or orders on file to remain under seal; and lifted the
13 seal on all other matters occurring in this action after the date of the order. As to the part of the
14 action in which the United States and Nevada declined to intervene, the order required the parties
15 to serve all pleadings and motions filed in that part of the action, including supporting
16 memoranda, upon the United States and Nevada as required by 31 U.S.C. § 3730(c)(3) and
17 NRS 357.103(1).

18 The United States filed a Second Amended Complaint (Dkt. #52) on November 25, 2014.
19 Creekside filed a Motion to Dismiss (Dkt. #65) February 26, 2015. The United States filed a
20 proposed Discovery Plan and Scheduling Order (Dkt. #72) on April 13, 2015. The same day, the
21 Defendants filed a Motion to Stay Discovery (Dkt. #74) until decision of the Motion to Dismiss.
22 The court set the parties' proposed Discovery Plan and Scheduling Order (Dkt. #72) and Motion
23 to Stay (Dkt. #74) for hearing on April 28, 2015. At the hearing, the court denied the Defendant'
24 motion to stay discovery, but indicated that the court would hold regular status and dispute
25 resolution conferences, requiring the parties' to submit any discovery disputes in a joint status
26 report detailing their respective positions with enough specificity to enable the court to decide
27 the disputes without the necessity for further formal briefing. *See Minutes of Proceedings*
28 (Dkt. #80) and Order (Dkt. #81).

1 **II. The Parties' Discovery Dispute**

2 The first status and dispute resolution conference was set for June 30, 2015. The parties
3 filed Joint Status Report (Dkt. #84) as ordered. The government objected to Defendants'
4 document requests as calling for premature expert discovery. At the time the parties' status
5 report was filed, the responses were not due until July 1, 2015. The United States and Nevada
6 indicated their intent to formally respond and object to the requests, but outlined their objections
7 in the status report. The United States objected to Defendants' Document Request No. 9 on the
8 grounds it sought information "within the purview of expert reports." Request for Production
9 No. 9 requested "an identification of all patients the government contends were ineligible for
10 hospice services under the Medicare program that were provided by Creekside in the time period
11 January 2010, to April 2013, and all supporting documentation to support such contention." The
12 United States also objected to Interrogatory No. 4 which requested the identification of "each
13 false claim you contend any of the Defendants submitted or caused anyone to submit to the
14 Medicare program for reimbursement." Subparts of the interrogatory requested identification of
15 the claim by date, name and address of the person who submitted it, patient identification
16 number, and the amount of the claim, as well as the reason the United States and State of Nevada
17 contend the claim was false and how the claim was identified as false.

18 The United States objected to these requests because they sought production of materials
19 that would be provided in expert disclosures due December 18, 2015, under the parties'
20 stipulated Discovery Plan and Scheduling Order (Dkt. #70). The United States and Nevada
21 represented that they had engaged in a medical review of a large sample of individual patient
22 medical files to determine whether the Defendants admitted and retained patients and billed
23 Medicare and Medicaid for those patients who were not eligible for hospice. However, the
24 United States repeatedly informed the Defendants during the investigation that the requested
25 patient files were derived from a statistically valid random sample. Creekside produced 175
26 patient records from the eligibility sample to the government during the investigation before the
27 United States elected to intervene. The government's request was served January 15, 2013, and
28 the United States argued that service of the request gave the Defendants more time to review the

1 records than the United States and the State of Nevada, since they had the opportunity to review
2 the records before producing them. The government's experts had not completed their analysis
3 or formed a final expert opinion. The United States and Nevada therefore argued that they
4 should not be forced to produce expert opinions prior to the December 18, 2015 deadline for
5 designating experts.

6 Creekside argued that it was entitled to know the identification of all patients the
7 government maintained were ineligible to receive hospice services. At a prior April 30, 2015
8 hearing, the government advised that it had conducted a sample review of 215 patients and found
9 a high percentage were ineligible for hospice services. The allegations were that the ineligibility
10 was due to the fraudulent conduct of Creekside. Creekside argued that medical review necessary
11 to analyze alleged clinical ineligibility is time consuming and involves expert review and
12 physician and other professional information. It also argued that the government had had nearly
13 three years to review the medical records produced by Creekside, and that Creekside would have
14 little time to review the record the government claims comprise ineligible hospice services under
15 the current discovery plan and scheduling order. Thus, there was no reason to delay discovery of
16 this critical information.

17 At the June 30, 2015 hearing, the court heard arguments from counsel and directed the
18 Department of Justice "to produce the information with respect to the identification of the
19 patients and the time periods for which [the government] believed false claims were made." *See*
20 Minutes of Proceedings (Dkt. #86). Defendants filed the current Motion to Enforce the Court's
21 June 30, 2015 Order on August 13, 2015. The DOJ produced an identification of ineligible
22 patients, but did not produce the false claims and certification information. It responded to
23 Request No. 9 stating:

24 As required by the Court's July 1, 2015 Order, and based on the
25 information currently available to the United States, the United
26 States responds as follows: the false claims submitted by the
27 Defendants for ineligible patients who are not terminally ill, as
28 defined by Medicare, and as demonstrated by the medical records
produced by Creekside for those patients are identified by patients
in documents at Bates Nos. USA_CRK_00021918-19, for certain
benefit periods yet to be determined. The United States will

1 supplement its production of responsive, non-privileged
 information to Request No. 9 as it becomes available.

2 DOJ provided the identities of 48 patients that it alleges had false certifications due to
 3 hospice ineligibility, but did not identify the false claims or the false certifications related to
 4 those 48 patients. It did not identify the time period that claims were made, or the specific
 5 certifications it alleges were false. It also produced, without segregation or identification to the
 6 48 patients, all claims data for all Creekside patients from 2010 to 2013, consisting of over 254
 7 MB of data, 258,000 rows of claims data containing 30.5 million data entries.

8 Creekside also pointed out that the government has not produced discovery concerning its
 9 false claims related to upcoding, and has failed to identify damages for any alleged false claims.
 10 It asks that the court enforce its order and required DOJ to fully produce all of the false claims
 11 associated with the 48 patients alleged to be ineligible or alternatively, to bar DOJ from
 12 supplementing its identification later “in prejudice to Creekside within 48 hours.”

13 The United States’ response to the motion to enforce argues that it has provided all
 14 information regarding the false claims in its matter that existed as of the time of its response, and
 15 would supplement when the information is available. The government claims it has significantly
 16 narrowed the issues in this case and reduced Defendants’ workload. The United States has
 17 narrowed the case to three types of false claims: (1) hospice benefits provided to ineligible
 18 patients who were not terminally ill; (2) upcoding claims, i.e., billings for more extensive
 19 services than actually provided; and (3) double-billing for hospice services already compensated
 20 in per diem payments for patient care.

21 The United States has no intention of proving liability or damages on a claim-by-claim
 22 basis. Rather, the United intends to prove submission of false claims by using a statistically
 23 valid random sample of patients and introducing testimony by expert medical professionals who
 24 review these records. The United States insists that it is unable to provide the information
 25 Defendants seek because it is expert driven and its experts have not completed their analysis. The
 26 court did not order the United States to produce information that does not exist and the motion
 27 should therefore be denied.

28 ///

DISCUSSION

I. Applicable Law

A. Rule 16(f) – Scheduling Orders

Rule 16(f) of the Federal Rules of Civil Procedure authorizes the court to impose sanctions on a party's motion or on its own motion, including any sanction authorized by Rule 37(b)(2)(A)(ii–vii), if a party or its attorney fails to obey a scheduling order or other pretrial order. *Id.* Sanctions for failure to obey a discovery order include, among other things, striking a party's pleadings in whole or in part or rendering a default judgment against the disobedient party. Fed. R. Civ. P. 37(b)(2)(A)(iii), (vi).

Rule 16(f) gives the court broad discretion to sanction attorneys and parties who fail to comply with reasonable case management orders of the court so that they “fulfill their high duty to insure the expeditious and sound management of the preparation of cases for trial.” *Matter of Sanctions of Baker*, 744 F.2d 1438, 1440 (10th Cir. 1994) (en banc). The Ninth Circuit has held that the purpose of Rule 16 is “to encourage forceful judicial management.” *Sherman v. United States*, 801 F.2d 1133, 1135 (9th Cir. 1986); *see also* Fed. R. Civ. P. 16 advisory committee’s note (stating “explicit reference to sanctions reinforces the rule’s intention to encourage forceful judicial management”). Violations of Rule 16 are neither technical nor trivial. *Martin Family Trust v. Heco-Nostalgia Enterprises, Co.*, 186 F.R.D. 601, 603 (E.D. Cal. 1999). Rule 16 is critical to the court’s management of its docket and prevents unnecessary delays in adjudicating cases. *Id.* The Ninth Circuit has emphasized that a case management order “is not a frivolous piece of paper, idly entered, which can be cavalierly disregarded by counsel without peril.” *Johnson v. Mammoth Recreations, Inc.*, 975 F.2d 604, 610 (9th Cir. 1992) (internal quotations and citations omitted). Disregard of a court order undermines the court’s ability to control its docket and rewards the indolent and cavalier. *Id.*

Violations of a scheduling order may result in sanctions including dismissal under Rule 37(b)(2)(C). *Dreith v. Nu Image, Inc.*, 648 F.3d 779, 787 (9th Cir. 2011) (internal quotations omitted). See also *Hester v. Vision Airlines, Inc.*, 687 F.3d 1162, 1169 (9th Cir. 2012). The goal of Rule 16 is to get cases decided on the merits. *In re: Phenylpropranolamine (PPA) Products*

1 *Liab. Litig.*, 460 F.3d 1217, 1227 (9th Cir. 2006). Rule 16(f) “puts teeth into these objectives by
 2 permitting the judge to make such orders as are just for a party’s failure to obey a scheduling or
 3 pretrial order, including dismissal.” *Id.*

4 **B. Rule 26(a) – Initial Disclosures**

5 Rule 26(a)(1)(A) of the Federal Rules of Civil Procedure requires parties to make initial
 6 disclosures “without awaiting a discovery request.” Rule 26(a)(1)(A)(iii) requires a plaintiff to
 7 provide “a computation of each category of damages claimed” and make documents or other
 8 evidentiary material on which the computation was based available for inspection and copying.
 9 According to the advisory committee note to Rule 26, this requirement is “the functional
 10 equivalent of a standing Request for Production under Rule 34.” Fed. R. Civ. P. 26 advisory
 11 committee’s note to 1993 Amendment.

12 Rule 26(e)(1) requires a party making initial disclosures to “supplement or correct its
 13 disclosures or responses . . . in a timely manner if the party learns that in some material respect
 14 the disclosure or response is incomplete or incorrect, and that the additional or corrective
 15 information has not otherwise been known to the other parties during the discovery process or in
 16 writing.” Fed. R. Civ. P. 26(e)(1). The advisory committee’s note to the 1993 Amendment
 17 indicate that “a major purpose” of the Rule 26(a) initial disclosure requirement “is to accelerate
 18 the exchange of basic information about the case and to eliminate the paperwork involved in
 19 requesting such information.” *Id.*

20 A party who fails to comply with its initial disclosure requirements and duty to timely
 21 supplement or correct disclosures or responses may not use any information not disclosed or
 22 supplemented “to supply evidence on a motion, at a hearing, or at trial, unless the failure was
 23 substantially justified or is harmless.” Fed. R. Civ. P. 27(c)(1). *Yeti by Molly, Ltd. v. Deckers
 24 Outdoor Corp.*, 259 F.3d 1101, 1106 (9th Cir. 2001). A party facing sanctions under Rule
 25 37(c)(1) for failing to make its initial disclosures or timely supplement or correct incomplete or
 26 incorrect responses bears the burden of establishing that its failure to disclose the required
 27 information was substantially justified or is harmless. *Torres v. City of L.A.*, 548 F.3d 1197,
 28 1213 (9th Cir. 2008).

1 **C. Sanctions Under Rule 37**

2 Rule 37 of the Federal Rules of Civil Procedure authorizes a wide range of sanctions for a
 3 party's failure to engage in discovery. The court has the authority under Rule 37(b) to impose
 4 litigation-ending sanctions. The Rule authorizes sanctions for a party's failure to make
 5 disclosures or cooperate in discovery. Rule 37(c)(1) provides, in relevant part:

6 A party that without substantial justification fails to disclose information required
 7 by Rule 26(a) or 26(e)(1), or to amend a prior response to discovery as required
 8 by Rule 26(e)(2), is not, unless such failure is harmless, permitted to use as
 evidence at a trial, at a hearing, or on a motion any witness or information not so
 disclosed.

9 Fed. R. Civ. P. 37(c)(1). Rule 37 gives "teeth" to Rule 26's mandatory disclosure requirements
 10 by forbidding the use at trial of any information that is not properly disclosed. *Ollier v.*
 11 *Sweetwater Union High Sch. Dist.*, 768 F.3d 843, 861 (9th Cir. 2014). Rule 37(c)(1) is a "self-
 12 executing, automatic" sanction designed to provide a strong inducement for disclosure.
 13 *Goodman v. Staples The Office Superstore*, 644 F.3d 817, 827 (9th Cir. 2011). Rule 37(a)(3)
 14 explicitly provides that an evasive or incomplete disclosure, answer, or response to a discovery
 15 obligation "is to be treated as a failure to disclose, answer, or respond." *Id.* "The only
 16 exceptions to Rule 37(c)(1)'s exclusion sanction apply if the failure to disclose is substantially
 17 justified or harmless." *Goodman*, 644 F.3d at 827.

18 In the Ninth Circuit, district courts are given broad discretion in supervising the pretrial
 19 phase of litigation. *Jeff D. v. Otter*, 643 F.3d 278, 289 (9th Cir. 2011); *Cont'l Lab. Products, Inc.*
 20 *v. Medax Int'l, Inc.*, 195 F.R.D. 675, 677 (S.D. Cal. 2000). The Ninth Circuit gives "particularly
 21 wide latitude to the district court's discretion to issue sanctions under Rule 37(c)(1)," which is "a
 22 recognized broadening of the sanctioning power." *Ollier*, 768 F.3d at 859 (citing *Yeti by Molly,*
 23 *Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1106 (9th Cir. 2001)). If full compliance with
 24 Rule 26(a) is not made, Rule 37(c)(1) mandates some sanction, "the degree and severity of which
 25 are within the discretion of the trial judge." *Keener v. United States*, 181 F.R.D. 639, 641 (D.
 26 Mont. 1998). The Ninth Circuit reviews a district court's decision to sanction for a violation of
 27 the discovery rules for abuse of discretion. *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259
 28 F.3d 1101, 1106 (9th Cir. 2001) (citation omitted).

1 **II. Analysis and Decision**

2 In oral argument before the court and in its discovery responses, the government has
3 made it clear that it intends to support its liability and damages claims for all three categories of
4 false claims based on what it contends are patient files derived from a statistically valid random
5 sample. Counsel for the government has repeatedly advised the court and opposing counsel that
6 the United States has not, and will not, undertake an analysis of its claims on a patient-by-patient
7 basis. The government collected a sample of 215 patients from 3,200 patients who received
8 hospice services from Creekside during the relevant time period. In response to the court's order
9 directing the government to identify the patients and false claims that were made to the best of
10 the government's ability, the government identified 48 patients for whom it alleges false claims
11 were made. Creekside maintains that there would be approximately 617 certifications for these
12 48 patients. However, the government has not indicated how many of these certifications lead to
13 false claims. Creekside also argues that it is unduly burdensome and expensive to require it to
14 investigate all 617 certifications when many of them are not likely to be challenged.

15 In arguments to the court and in response to written discovery, the government has made
16 it clear that its false claims and damages arising from those false claims, arise out of
17 extrapolations made by its experts. The government has affirmatively represented that it is
18 unable to identify all false claims or false certifications for the 48 patients it claims represent a
19 statistically valid random sample, and that this is information only its experts can provide. The
20 government asserts that with respect to non-eligible patients, the claim for payment is, itself, a
21 false statement because the claim is an assertion that the patient was eligible to receive hospice
22 services. The government has also made clear its position is that with respect to upcoded false
23 claims, the false claim is that a certain level of services was provided when it was not. With
24 respect to double-billed claims, the false claim is that the services were billable when they were
25 not. The details of which claims are false are not known to the United States, but will be
26 provided once the experts have provided the government with this information.

27 Creekside argues persuasively that it is unreasonable to require it to complete its
28 discovery and designate a rebuttal expert 30 days after the United States finally provides it with

1 critical information about the specifics of the government's claims. This is especially true
2 because Creekside argues in this motion, and in its motion to dismiss, that mere clinical
3 disagreement with the judgments of certifying physicians is insufficient, as a matter of law, to
4 support a false claim. Creekside also points out that the government's reliance on what is
5 contends is a statistically valid random sample to prove its claims has been criticized, and is
6 under review by the Fourth and Eleventh Circuits.

7 The court has made it clear in prior hearings that the government may elect how it intends
8 to prove its liability and damages claims, but will not be permitted a "do over" of discovery or
9 expert witness designations if the district judge finds the government's evidence or methodology
10 lacking.

11 During oral argument counsel for the government conceded that it was a mistake to
12 submit a proposed discovery plan and scheduling order following LR 26-1(e) which makes
13 expert disclosures due 60 days before the discovery cutoff and rebuttal expert reports due 30
14 days later. The court will modify the discovery plan and scheduling order deadlines to mitigate
15 the prejudice to the Defendants caused by the government's inability to disclose crucial
16 discovery after deciding Creekside's pending motion to stay based on a case accepted for
17 *certiorari* by the Supreme Court. (Dkt #144). The court will also enter an order precluding the
18 government from using or relying on any information not timely disclosed in its expert reports.

19 The United States has clearly indicated that it is unable to identify all false claims or all
20 false certifications, and is relying upon the extrapolations made by its experts from what it
21 regards as a statistically valid random sample of 48 patients. Having elected to prove its claims
22 by this method, the United States will be precluded from altering its liability or damages theory
23 and method of proof. The United States will be precluded from supplementing its list of
24 allegedly ineligible hospice care patients, false certifications of hospice eligibility, false claims
25 made by upcoding, and false claims made by double-billing for hospice services already
26 compensated in per diem payment of patient care not timely disclosed in its expert disclosures. It
27 will also be precluded from claiming any damages attributable to false claims not timely
28 disclosed in its expert disclosures. However, the court will not compel the United States to

1 produce information it affirmatively represents it does not have and cannot disclose without
2 medical opinion testimony.

3 **IT IS ORDERED** that Creekside's Motion to Enforce (Dkt. #95) is **GRANTED** to the
4 extent:

- 5 1. The United States will be precluded from supplementing its list of allegedly ineligible
6 hospice patients, and false certifications of hospice eligibility not timely disclosed in
7 its expert disclosures;
- 8 2. The United States will also be precluded from introducing any evidence of false
9 claims for upcoded services, *i.e.*, billing for more services than actually provided, not
10 timely disclosed in its expert disclosures;
- 11 3. The United States will be precluded from introducing any evidence of double-billing
12 for hospice services already compensated in per diem payment for patient care not
13 timely disclosed in its expert disclosures;
- 14 4. The United States is precluded from claiming any damages attributable to false claims
15 not timely disclosed in its expert disclosures;
- 16 5. The United States may not use any information at issue in this motion, not timely
17 disclosed in its expert disclosures, to supply evidence on a motion, at hearing, or at
18 trial.
- 19 6. Any request for relief not specifically addressed in this order is **DENIED**.

20 DATED this 30th day of March, 2016.

21
22 
23 PEGGY A. TEES
24 UNITED STATES MAGISTRATE JUDGE
25
26
27
28